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AGENDA ITEM 7

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Second Reading – Blue Cross of California Select PPO Proposal
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Staff Recommends the Board approve the Blue Cross of California Select PPO as a third, lower-cost, self-funded PPO offering in 2007.

IV. ANALYSIS and DISCUSSION:

Introduction

Last month, a first reading was provided to introduce Select PPO as a third self-funded health plan option. CalPERS staff and Steven Scott, General Manager, Large Group Public Entities, Blue Cross of California (Blue Cross), presented information on Select PPO as an alternative PPO physician network in California that would offer a lower-cost PPO option for our members.

Select PPO Provider Network

Blue Cross selects physicians to participate in the Select PPO network who demonstrate efficient practice patterns that achieve cost savings. Attachment 1, "Episode Treatment Groups™: What You Should Know," describes the methodology used to profile physicians for the Select PPO network which emphasizes cost-efficiency of physicians. Attachment 2, "Quality Measurement in the Establishment of the Select PPO Network," provides the methodology used to review physicians using broadly accepted quality measurement standards to assure that the Select PPO network maintains the quality provided in the Blue Cross PPO network.

The Select PPO network is a subset of the existing Blue Cross PPO physician network offered under PERS Choice and PERSCare. Select PPO represents over 50 percent of the Blue Cross PPO physician network. Over 23,000 physicians plus allied providers participate in the Select PPO network. The Select PPO network includes the same broad spectrum of provider specialties as the Blue Cross PPO network.

Although in some rural counties, certain specialties are scarce or non-existent in both the Select PPO network and the Blue Cross PPO network. If a specialty is not listed for a particular county, CalPERS PPO members can access specialists under the out-of-network referral process and receive an in-network level of benefits. The Blue Cross of California Telemedicine Program may assist Select PPO members residing in rural areas with access to certain specialties.

The Blue Cross of California *Provider Finder* is an on-line tool to assist members in locating a physician. *Provider Finder* can assist in locating physicians in the Select PPO network. Ancillary providers, e.g., chiropractors, acupuncturists, physical therapists, are not yet available in *Provider Finder* for Select PPO, but will be available prior to the CalPERS Open Enrollment period. *Provider Finder* can be accessed at www.bluecrossca.com by selecting: Find a Provider/Visitor Search/Large Groups/Power Select PPO.

PPO Select is offered in all California counties with the exception of Alameda, Marin, Placer and Solano. Ninety-two percent of CalPERS Basic Plan Members in these four counties are enrolled in HMOs or association plans; eight percent are enrolled in the PERS Choice and PERSCare Basic plans. Since last month, Del Norte County has been included in the PPO Select physician network. Select PPO would provide a lower cost PPO option in those counties within the network that currently have no Health Maintenance Organization (HMO) option (Alpine, Calaveras, Humboldt, Inyo, Lassen, Modoc, Mono, Monterey, San Benito, Shasta, Siskiyou, Tehama, Trinity and Tuolumne).

Premiums and Benefits

A comprehensive analysis completed by Blue Cross and Mercer Human Resource Consulting Services concluded that a 6.64 percent premium savings in comparison to the PERS Choice Basic Plan premiums would be realized by offering Select PPO in the CalPERS self-funded PPO health plan offerings for 2007. The Select PPO network is expected to achieve a seven percent reduction in paid claims as a statewide average versus the Blue Cross PPO network offered under PERS Choice and PERSCare. Because of the expected migration of 15 percent of PERS Choice members into Select PPO Basic Plan, the PERS Choice Basic Plan premiums would be one percent higher if Select PPO is introduced.

The Select PPO Basic plan benefits would mirror the benefit design for the PERS Choice Basic Plan; only the provider network would be different. However, as Medicare supplement plan benefit rules preclude the Select PPO network approach, the Select PPO Supplement to Medicare plan would mirror the 2007 PERS Choice benefits and premiums.

The 2007 proposed premiums for Select PPO and PERS Choice are incorporated in Agenda Item 10, Approval of 2007 Self-Funded Plans Benefits and Rates. Attachment

3, PERS Select and PERS Choice Benefit Design, provides a summary of the PERS Select benefits that will be offered.

State Annuitant Contribution

There would be no impact to the state annuitant contribution (100/90) formula for 2007, as the 100/90 formula is based on 2006 enrollment. However, it is estimated that there could be a slight decrease of less than one percent in the 100/90 formula in 2008, if Select PPO replaces PERSCare in the formula. This estimate could vary depending on the 2008 premium rates and member enrollment in health plans. As the 100/90 formula is based on the active and retired enrollment of the four largest Basic plans, 2007 enrollment patterns will determine which plan becomes the fourth largest plan in the formula. As 2006 plan enrollment is very close, Select PPO would compete with PERSCare and Western Health Advantage for the fourth spot next to PERS Choice, Kaiser and Blue Shield.

Advantages to Offering Select PPO in 2007

- Select PPO offers a broad network of efficient physicians and allied providers in 54 of the 58 California counties. All four counties (Alameda, Marin, Placer and Solano) that do not participate in Select PPO have other HMO and PPO options. Ninety-two percent of CalPERS Basic Plan members in these four counties are enrolled in HMO or association plans; and only eight percent are enrolled in PERS Choice and PERSCare plans.
- Select PPO is a lower cost PPO option for members who value the freedom of choice offered through a PPO plan design.
- Select PPO provides cost savings to members and employers without reducing benefits.
- Select PPO is a more affordable plan option in counties that do not have a HMO option (Alpine, Calaveras, Humboldt, Inyo, Lassen, Modoc, Mono, Monterey, San Benito, Shasta, Siskiyou, Tehama, Trinity and Tuolumne).
- Select PPO offers a more affordable PPO option for state and contracting agency members.

V. STRATEGIC PLAN:

This item supports Health Goal XII: Engage and influence the healthcare marketplace to provide medical care that optimizes quality, access and cost.

VI. RESULTS/COSTS:

Offering Select PPO in 2007 is expected to achieve a seven percent reduction in paid claims which will provide a 6.64 percent premium savings in comparison to the PERS Choice Basic Plan premiums. It will, however, increase 2007 PERS Choice Basic Plan premiums by one percent. Select PPO would likely compete with PERSCare and Western Health Advantage for the fourth spot in calculating the 100/90 formula for 2008, next to PERS Choice, Kaiser and Blue Shield. If Select PPO replaces

PERSCare in the 100/90 formula, this could help to mitigate a more significant reduction in the 100/90 formula if Western Health Advantage were to replace PERSCare.

Staff recommends that the Health Benefits Committee approve staff's recommendation to include Blue Cross of California Select PPO as a new, lower-cost, self-funded PPO offering in 2007, to be identified as PERS Select.

Richard J. Krolak, Chief
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Attachments